STATE OF IOWA

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IOWA DEPARTMENT OF COMMERCE
CREDIT UNION DIVISION
JAMES E. FORNEY
SUPERINTENDENT

INTERPRETIVE BULLETIN

DATE: August 16, 1993

TO: All State Chartered Credit Unions

FROM: James E. Forney
Superintendent of Credit Unions

SUBJECT: Non-Earning Assets

This memorandum is issued in response to questions being asked by credit unions when they consider increasing the amount of their fixed assets, and to address problems being encountered by some credit unions in this regard. Fixed assets (including land, building, furniture, fixtures and equipment) become a problem when they exceed the credit union's financial ability to carry the burden of these non-earning assets. The loss of income and the overhead costs associated with a disproportion investment in fixed assets can cause a credit union considerable problems.

It is recognized that fixed assets can be an important part of service to the membership. But these investments must be part of a well organized, overall strategy and business plan. Investments in fixed assets are scrutinized by both the state regulator and the federal deposit insurer during the examination and review of credit union records and reports.

In federally chartered credit unions, investments in fixed assets which exceed five percent of total shares and retained earnings are generally considered to be an unsafe, unsound practice, requiring prior approval by the National Credit Union Administration, as specified in NCUA's Rules and Regulations Part 701.36. Presently, the statues and rules governing Iowa's state-charted credit unions do not contain similar language requiring prior regulatory agency approval.

In state-chartered credit unions, the Iowa Credit Union Division considers safety and soundness when reviewing a credit union's fixed asset and non-earning asset ratios. Safety and soundness has been defined as an action, or lack of action, which is contrary to generally accepted standards of prudent operations which creates or would result in an abnormal risk or loss to the credit union, to its members, or to the federal deposit insurance fund.

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In light of the safety and soundness considerations associated with increases in fixed assets, the Iowa Credit Union Division is requesting state-chartered credit unions to inform the Division, well in advance, of any significant investment in fixed assets. In particular, if that investment will: 1) cause the credit union's fixed assets to total assets ratio to exceed five percent; and/or, 2) result in the credit union's non-earning assets [fixed assets plus cash, prepaid expenses, deferred charges, NCUSIF, etc.] to exceed the credit union's capital equity accounts [undivided earning, statutory and other reserves, and any other segregations of undivided earnings, excluding the allowance for loan losses account].

As used in the above paragraph, "well in advance" means prior to the commitment of any credit union funds (unless there is the ability for the termination of the agreement or commitment without liability or penalty), and with sufficient lead time (not less than 45 days) to provide for regulatory review and concurrence/non-concurrence by the Division of the proposed increase in fixed assets.

The objective for establishing these standards, and the corresponding reporting requirements, is to maintain healthy credit unions in Iowa. Failure to observe these standards may cause a credit union to be considered as operating in an unsafe/unsound manner, and may be grounds for administrative or enforcement action affecting the credit union and its officials.